

Trinidad's Finances FY 2006-2007

Understanding Your City's Budget, Budget Process,
and Fiscal Policies and Procedures

Prepared by

Trinidad City Council

October, 2006

Understanding Trinidad's Budget and Finances*

Trinidad Residents:

Each of us should understand how the City Council plans and implements a budget each fiscal year. It's your money and the Council wants you not only to understand how it is processed and spent, but also wants you to participate in the process.

The money we spend is used on a wide variety of services. Some, like police and street maintenance we see every day. Others, like water treatment or accounting we do not see, but they are still critical to keep the City running smoothly.

The following information is our attempt to explain the budget planning process, where the City's money comes from, and how it is spent. All of this information is public record, but many of us don't have the time to come down to City Hall to look it up. We hope this publication saves you that time and still gives you the education you want about your City's finances.

We welcome your comments, questions, and suggestions about how to improve this booklet. You may call or email any City Councilmember (contact the City Clerk for Councilmembers' contact information) or email the City Clerk (trinidadcityclerk@cox.net). We will post this booklet on the City's web site (www.trinidad.ca.gov) where you can review and download individual sections.

Sincerely,

Trinidad's City Council
October, 2006

Special thanks to City Accountant Deborah Brooks, CPA, for her comments and review of the draft and Richard Johnson for many hours of volunteer service helping develop the City's budget.

* Much of the material and ideas for this document came from the CSMFO (California Society of Municipal Finance Officers) website at www.csmfo.org, and special thanks to the League of California Cities for locating the site.

10/06

How Trinidad's Budget Is Organized

There are three major types of budget categories:

1. General Fund
2. Enterprise Funds
3. Special Reserve Funds

General Fund

This fund consists of income that is discretionary (unrestricted), i.e. the Council can fund projects based on community need and priorities. The General Fund has four sub-categories:

- a. Administration
- b. Police Chief (other police officers are funded by state grants)
- c. Public Works
- d. Fire

The General Fund is the indicator of the City's financial health. Questions like "Is the City in the red or the black?" refer to the General Fund. More about the General Fund later.

Enterprise Funds

Enterprise funds collect fees for the services they provide. The two enterprise funds are the Water Fund (we pay for the water we use) and the Cemetery Fund (we pay for burial/cremation plots).

Money collected for these funds must be spent on personnel or activities related to those services. For instance, Water Fund revenues pay for the Water Treatment Plant Operators, chemicals used to treat the water, repairs to pumps, new water meters, etc. Cemetery funds pay for maintenance, tree trimming, and other cemetery-related expenses.

Enterprise funds must build a reserve to cover long-term expenses. For example, replacing pumps at the water treatment plant will be necessary some day and will be a major expense. There must be money in the water fund to cover such replacements. The Cemetery Fund must accumulate enough reserve so that when the cemetery is filled, the interest from the reserve will ensure that ongoing maintenance costs are covered.

Special Reserve Funds

Some special reserve funds are proscribed by law. These funds receive money for specific purposes and their budget categories describe their purposes. For instance there is the Transportation Development Act (TDA) fund which can only be used for street-related projects. Other special reserve funds, such as the Government Building fund are set up by the City Council and can be changed by Council vote.

Summary list of Budget Categories

- I. General Fund (discretionary)
 - A. Administration
 - B. Police
 - C. Public Works
 - D. Fire
- II. Water fund (enterprise)
- III. Cemetery fund (enterprise)
- IV. Integrated Waste Management (special reserve)

- V. Transportation Development Act (TDA) (special reserve)
- VI. Harbor (special reserve)
- VII. Gas Tax (special reserve)
- VIII. COPS allocation (special reserve)
- IX. Indian Gaming Grants (special reserve)
- X. Government Building fund (special reserve)

The General Fund

Introduction

The General Fund is the largest budget category, with over \$450,000 in revenue from many sources. The General Fund is actually four funds: Administration, Police, Fire, and Public Works.

The Fire Department and Public Works do not bring in revenue and are wholly funded from the General Fund. While the Police Department brings in some revenue, most of the Chief's salary and budget is funded by the General Fund (other officers are funded from other sources).

A breakdown for each of the five funds in 2006-2007 looks like this:

Fund	Admin	Police	Fire	Public Works
Total Income	\$442,200	\$17,025	\$0	\$0
Total Expenses	\$141,572	\$106,950	\$14,725	\$50,285
Amt. left or (deficit)	\$300,628	(\$89,925)	(\$14,725)	(\$50,285)

Since the total "deficit" from the Police, Fire, Public Works Departments, and other expenses add up to \$331,227, that amount must come from the Total Income in the Administration Department. So the amount left over in the General Fund Admin. is projected to be \$128,998. That, or whatever amount is actually left over at the end of the fiscal year, becomes part of the General Fund Reserve.

General Fund Administration

Income

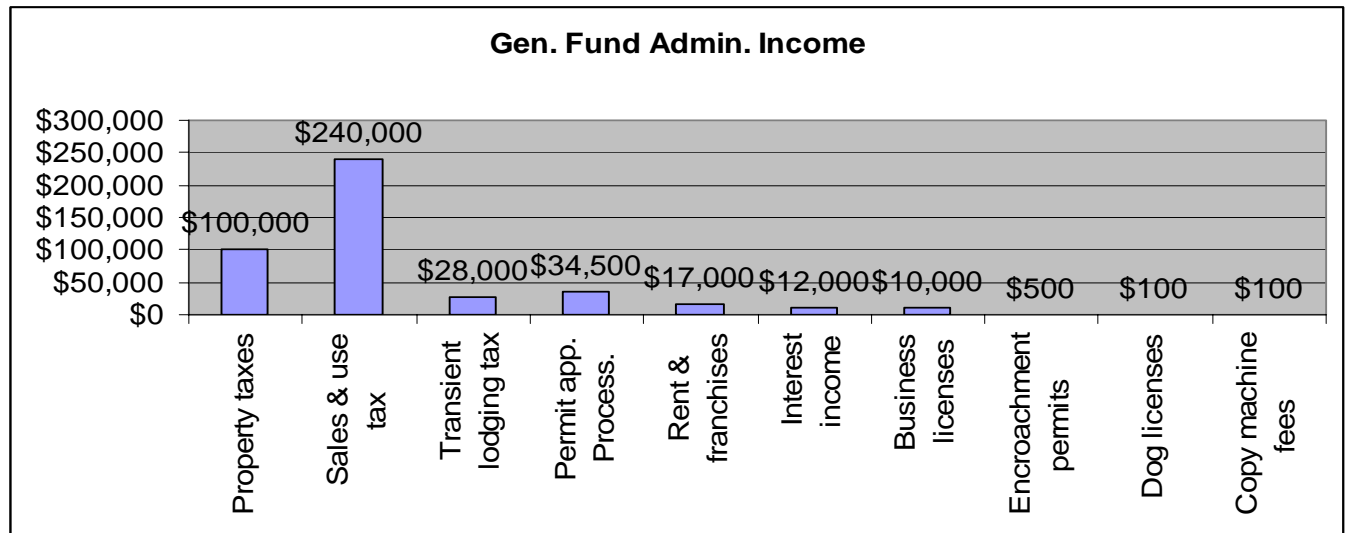
General Fund Admin. funds the greatest variety of City services. It is also the fund with which the City Council has the most discretion. Police, Water, and Cemetery budgets will be covered in later sections.

Income in General Fund Administration comes from a variety of sources: various state and local taxes, some grants, professional fees, licenses, rents, franchises, and others. The City Council can also transfer money into and out of the General Fund.

It's important to remember that the budget is a *prediction* based on past experience, changes in state finances, and local developments. For instance, if property taxes last year brought in \$65,000 will this year bring in the same, less, or more? If we expect an increase, we must predict a reasonable increase.

Another complicating factor is that we must adopt a budget before much of the income arrives. We get property tax revenue three times a year, the last payment not arriving until after the end of the fiscal year. *Budgeted incomes are our "best estimate" for the coming year.*

Below is a chart showing the sources and income into the General Fund Administration expected in fiscal year (FY) 2006- 2007.

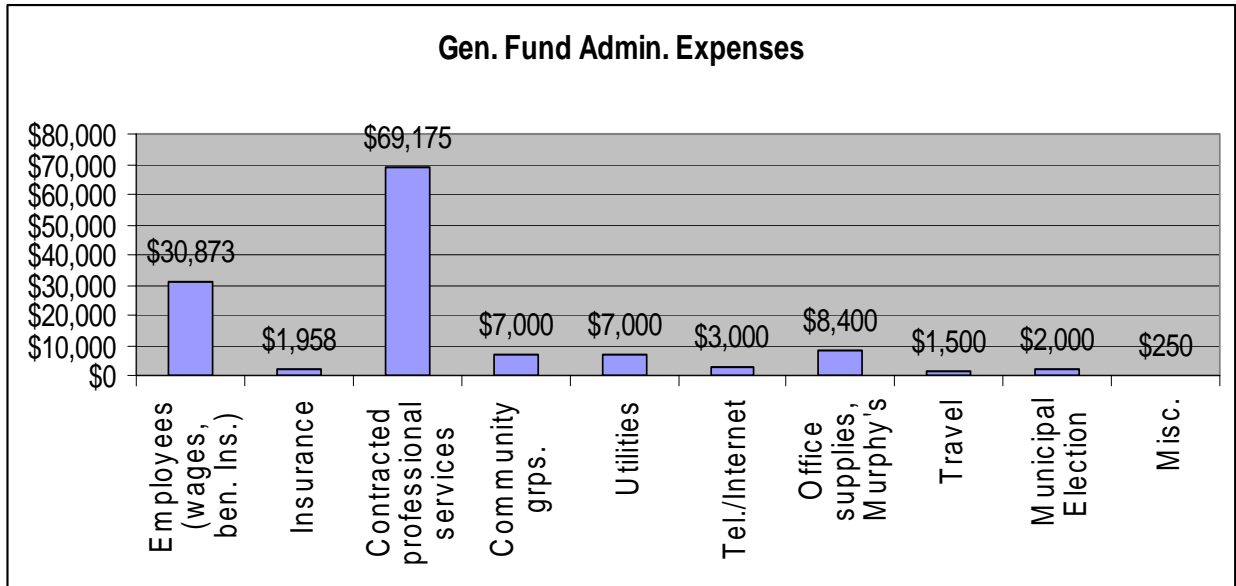


Taxes make up 76.9% of our General Fund income. Income from professional fees (planner, engineer, building inspector) make up for some, but not all of the expenses for those services. Rent and franchise income is designated for Town Hall. The last three categories are so minor they do not show on the pie chart.

Remember, the income shown above must fund budgets of the Police Chief, Fire Department, and Public Works Department.

Expenses

Where does your money go in the General Fund? The largest expenses are for City employees and contracted professional services (City Attorney, Planner, Engineer, Building Inspector, Accountant, Auditor, and Financial Advisor). The chart below summarizes General Fund expenses predicted for the coming fiscal year:



The picture is actually more complicated. For example, some of the professional fees spent are recovered when residents take out building permits or process a permit application. Other professional fees, such as litigation expenses are not recovered.

Some of the expenses above are one-time costs, for example purchasing office equipment or conducting a City election. Others, like utilities, are part of the everyday costs of running the government. Some expenses, like "Community grps" (Chamber of Commerce and Library rent) are voluntary decisions made by each City Council.

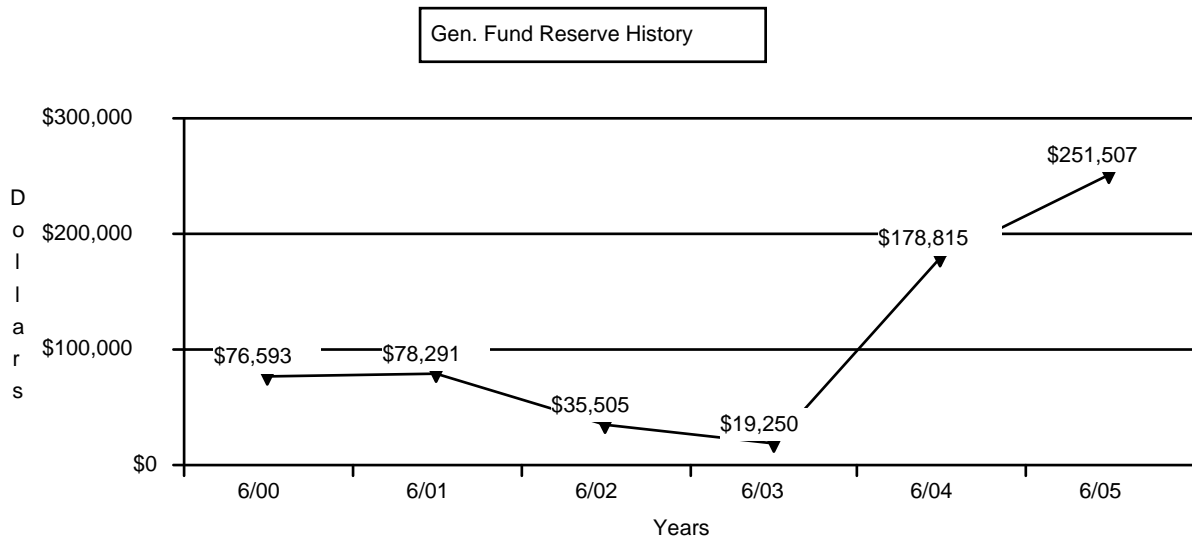
Is Our General Fund Budget "Balanced"?

Yes. The '06-'07 total General Fund Revenue for all departments is \$459,225. Total General Fund expenditures are estimated to be \$331,227. That leaves the General Fund "in the black" by \$128,998. Any funds left over at the end of fiscal year become part of the General Fund Reserve.

General Fund Reserve

One measure of the City's financial health is the size of the General Fund "Reserve." This is cash that is immediately available in case of emergencies or unexpected financial problems. The City's Accountant has studied cash reserves needed to operate the General Fund and Water Fund. The Council agreed to maintain a reserve of over \$300,000 in the General Fund to meet cash flow requirements.

With the end of major litigation expenses, the sale of two city-owned parcels, and the approval of the 1% sales tax increase, the General Fund Reserve has been growing. The graph below shows the cash reserves for the past six years.



The size of the reserve as of June 2006 will be known in a few months.

Unknowns and Issues in the General Fund for FY 2006-2007

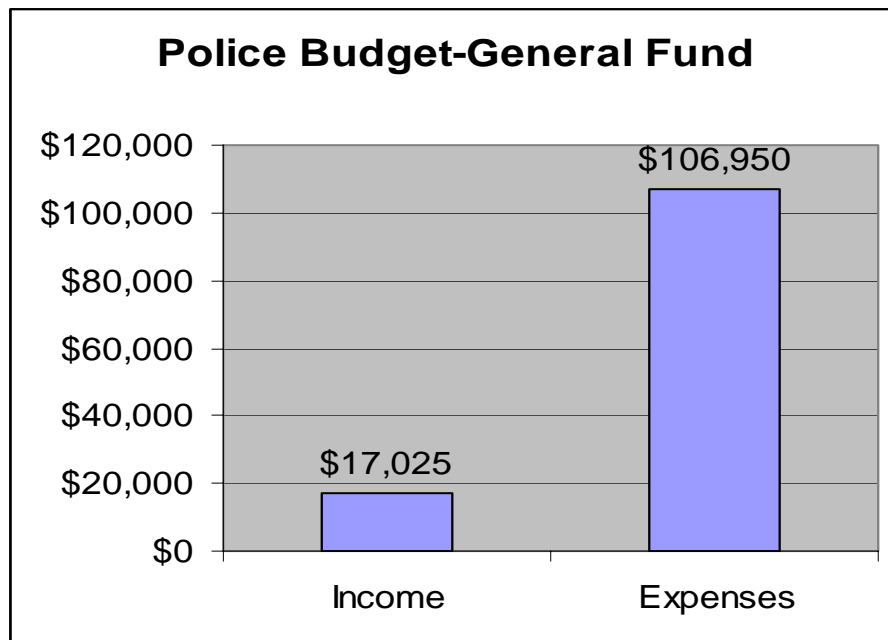
1. State budget decisions, e.g. vehicle license taxes: Will the State budget change any of our anticipated tax income?
2. Sales tax revenues: Will local sales to residents and visitors continue strong and bring in anticipated sales tax revenues?
3. Transient occupancy tax revenues: Will visitors continue to stay at Trinidad Bay Bed & Breakfast and vacation rentals often enough to meet anticipated Transient Occupancy Tax levels?

4. Litigation expenses: At the beginning of fiscal year 2006-2007 the City was not involved in any litigation. Do we budget for litigation expenses anyway?
5. Carry-over from FY 2005-2006: We won't know for a few months the amounts, if any, that will be carried over from the last fiscal year.
6. Emergencies cannot be planned. The Council decided not to create an "emergency fund" but to deal with any financial emergencies when they occur.

The Police Department

Trinidad's Police Department consists of a Chief and other officers. *Only the Chief's position is funded out of the General Fund.* All other officers are funded by grants, either one-time or annual.

The Police Department budget actually consists of two separate budgets: one in the General Fund for the Police Chief, and the other for grant-funded personnel and expenses. A portion of the Chief's salary is paid from grant funds, since he spends that portion of his time administering grant-funded personnel and operations. A summary of the *General Fund* portion of the Police Department is below:



Trinidad's annual General Fund budget can cover the expenses of one police officer - the Chief. The General Fund will contribute \$89,025 toward the Police Chief and his operations. Any other police personnel, equipment, and operations must be paid for from grant funds.

Citizens Options for Public Safety (COPS) is a state-funded program that annually gives Trinidad \$100,000. This year the department budget was augmented with a \$50,000 grant from the Indian Gaming Special Distribution Fund, administered by a County-level committee. Continued grant funding is often uncertain or specifically a one-time award. However, the Chief joins the Council and other law enforcement agencies in working to ensure that COPS funding continues.

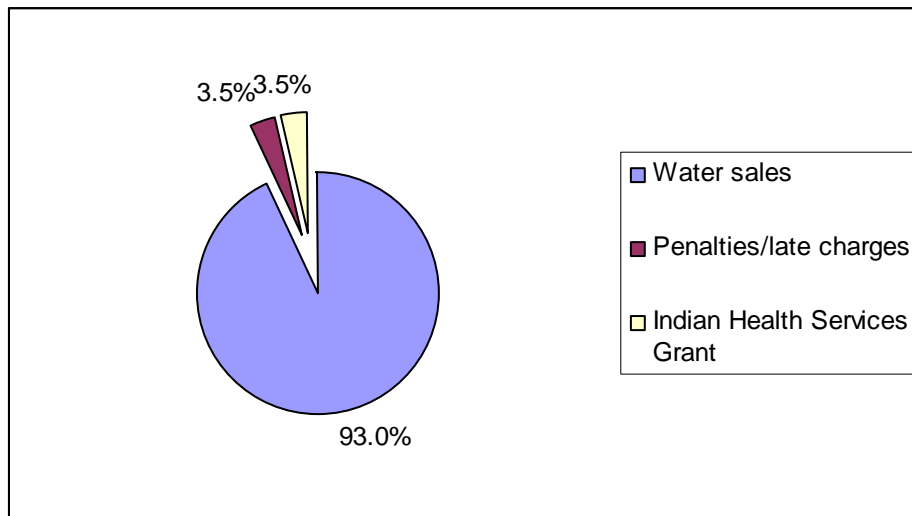
The Water Fund

How is the Water Fund supported?

As an enterprise fund, the Water Fund accumulates money from two main sources: the monthly sale of water to water users and the charge for new water hookups. No new hookups are anticipated next year. The Fund also gets income from interest earned and penalties for late payments and this year we received a grant from Indian Health Services.

Expenses to the Water Fund include salaries, insurance, chemicals for water treatment, and maintenance to the water plant equipment and facilities and contracted professional services. Expenses also include State mandated upgrades to plant facilities.

Income - FY 2006-2007



Water Source and Treatment

Pumps remove water from Luffenholtz Creek, about two miles south of town on Westhaven Drive. Water is cleaned, chlorinated, and pumped to redwood tanks north of the plant.

Providing clean drinking water is a demanding specialized job requiring extensive training and being on-call 24 hours a day. The water treatment plant operator, Noel Ponniah, monitors water quality each day, adjusting chemical treatment as needed. Bryan Buckman, our public works employee, has also been trained as a water plant operator and takes over when Noel is away. Both operators have passed Level III certification as required by State regulations.

State and federal laws regulate water quality requiring regular testing, filing reports, and changing treatment techniques to meet new standards. All water reports are public information and are available for inspection.

How do we decide how much to charge for water?

The City Council sets water rates. When the Luffenholtz Creek water plant opened, the City Council established a two-tiered rate system: water customers in the city limits pay a lower rate than water customers outside the city limits. A water service area was established between the treatment plant and the city limits, along Westhaven Drive. Residents along the pipeline were allowed to hookup to city water. Hookup fees for non-residents are also higher than hookup fees for residents.

For nearly eleven years the water rates did not increase. However, a few years ago expenses began to exceed income, projecting a decrease in the Water Fund reserve. In 2001 the City Council studied water rates and agreed on two actions:

1. Increase the water rate so income exceeds expenses.
2. Build in an annual cost of living increase so rates keep pace with expenses.

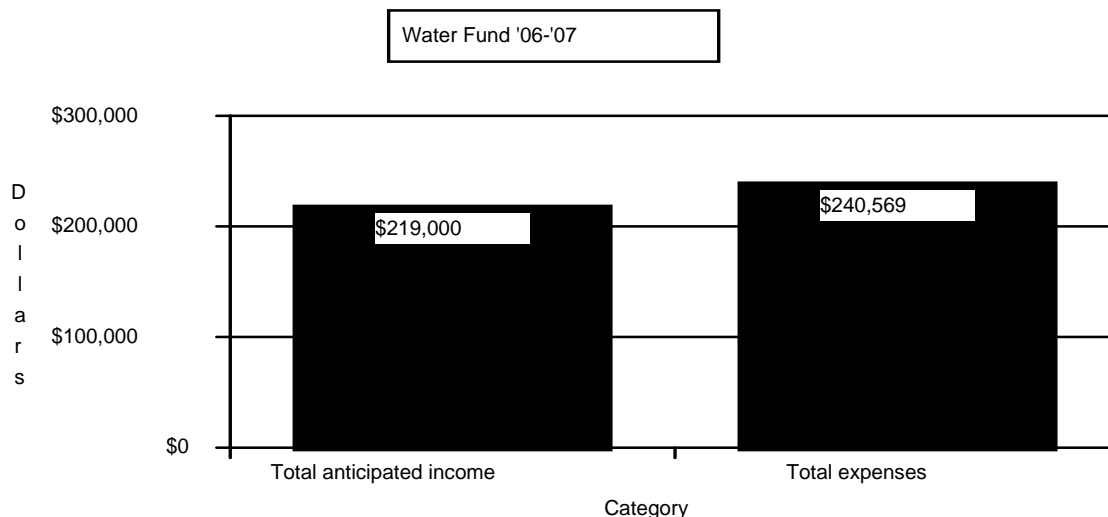
By Resolution the Council established a formula for calculating annual increases. Each May the consumer price index (CPI) is checked and water rates adjusted accordingly. In May 2006 the CPI was 4.2%, so July 1 water rates increased by that percentage for both resident and non-resident customers. That adjustment will take place each year, depending on the CPI, unless a future City Council changes the water rate formula.

Why is the Water Fund Reserve so important?

Water plant operations must be self-supporting. Major repairs to the plant, implementing State mandated upgrades, new treatment methods, repairing water line breaks, and everyday plant operation - all must be covered by Water Fund income and its reserve.

All equipment wears out, so the reserve must cover the cost, piece by piece, of replacing the entire water treatment system, including pipes in City streets. The last audit showed a Water Fund Reserve of \$385,136.

Expenses - FY2006-2007



The projected Water Fund budget shows that next year expenses will exceed income by over \$21,500. One major expense is a \$29,000 engineering study required by new State regulations. The study will identify water plant upgrades needed to meet State water treatment requirements. To maintain a healthy reserve, water income must exceed expenses. The Council will have to work with the community to identify ways to make that happen.

New Water Rate Structure

In the summer of 2006 the Water Commissioner proposed restructuring water rates to encourage conservation. He began a study of how much water different users consume and how rates might be restructured to reward residents who use less water.

The Council discussed various ways to restructure water rates. One issue is that the water system - the treatment plant, water tank, distribution lines, fire hydrants, etc. - must be maintained and that requires a certain income. However rates are restructured, the Water Department must receive the income necessary to maintain the water system. The Council will continue to discuss water rate restructuring and will look for community input to help with that process.

Cemetery Fund

FY 2006-2007

The other enterprise fund maintains the City-owned cemetery. Income from selling cemetery plots and interest on the reserve build the Cemetery Fund. Council policy set the goal of building a large enough reserve so that when all cemetery plots are sold the interest on the reserve will cover cemetery maintenance. [What is Cemetery Fund Reserve goal?]

This year there is one capital project which will reduce the amount added to the Cemetery reserve: Contributing to getting electricity to a shed on cemetery property. This \$6,000 project will be split between the Cemetery fund (\$1,500) and Public Works (\$4,500).

Cemetery fund 2006-2007

Income	\$11,345
Expenses (general)	\$9,822
Expense for electricity to shed	<u>\$1,500</u>
Total left toward reserve	\$23

The Cemetery Reserve

In May, 2000, Councilmember and Finance Committee member Terry Huff analyzed our cemetery operation. He found that within an estimated 10 years the cemetery could be filled. He also found that "the Cemetery fund is not adequate to maintain the Cemetery in the future and is not adequate to purchase new land for expansion." His report was the basis for raising burial fees to their present level.

His analysis of the Cemetery reserve fund found that in 2000 the fund was \$53,000 and bringing in about 3%, or \$1600 each year. He extrapolated the amount to 2007 with various burial fees and interest rates. He projected that with increased fees, which were subsequently adopted, by 2007 we should have \$117,423 in the reserve which with a 5% investment return would become \$128,304.

The 2004-2005 Audit showed the Cemetery Fund with a reserve of \$112,793. If our Cemetery maintenance expenses are \$10,000 per year, we will need a reserve of \$200,000 invested at 5% to produce that amount. Another analysis is probably needed to determine if we are "on track" toward that goal when the cemetery is filled.

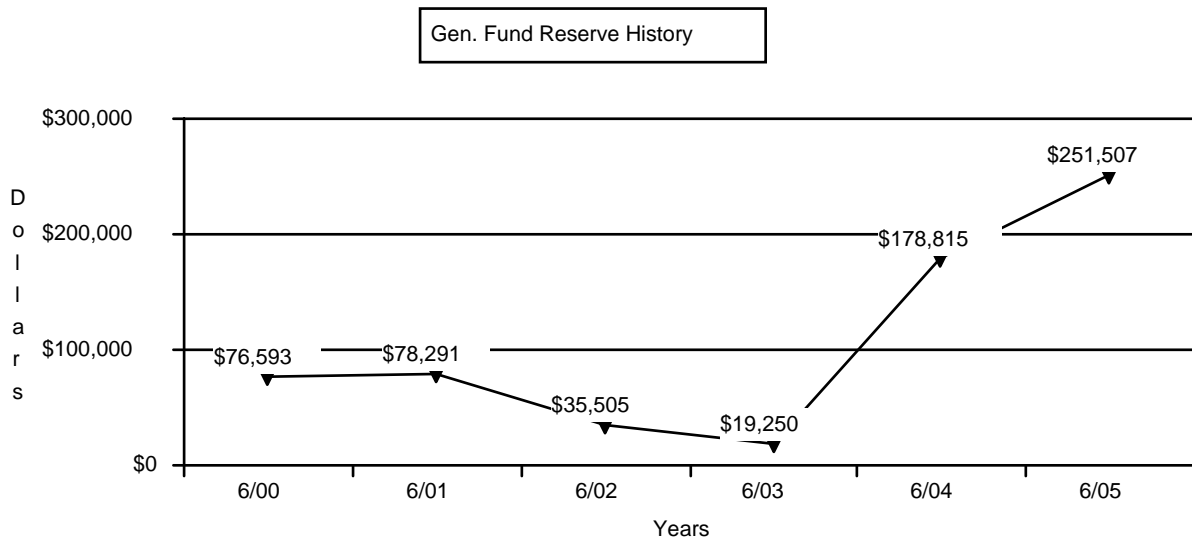
Trinidad's 1% Sales Tax Increase

In April 2004, voters approved increasing the sales tax in Trinidad by 1%. The City Council said that the increased funds would be used to rebuild our general fund reserves. The Council also put a four-year limitation on the tax, which went into effect in October, 2004.

Has the sales tax increase helped put the City back on its "financial feet"? That question is difficult to answer, but the evidence indicates "yes," the increased sales tax is rebuilding our reserves. What makes it hard to analyze sales tax impact?

1. The additional tax revenue is lumped together with regular sales tax deposits. The State Board of Equalization, which sends sales tax revenues to the City, does not distinguish between the base rate of 7.25% and the additional 1%.
2. Sales tax revenues arrive at different times and in different amounts, some arriving after the start of the fiscal year. We usually complete a new budget in July but sales tax payments for the prior year arrive after that. The audit, which is completed around the first of the year for the prior fiscal year, gives a final tally of sales tax revenues.
3. Sale of city-owned property. In April 2004 and in June 2005 the City sold two parcels of land near Berry road east of the freeway. The 2004 sale (Himalaya Drive) netted \$129,404 and the 2005 sale (Mill Creek) netted about \$176,000. These were one-time cash infusions into the General Fund and have to be considered in any analysis of General Fund Reserves.

The graph below shows how the General Fund Reserve has grown in the last two years.



The figures were taken from audit reports and show totals for the prior fiscal year, e.g. "6/05" shows the figure for the end of the June 30, 2004 - June 30, 2005 fiscal year. Subtracting the Himalaya Drive property proceeds (\$129,404) from the June 2004 General Fund Reserve leaves \$49,411. The sales tax increase went into effect in October, 2004 and did not affect the June 2004 Reserve figure.

However, subtracting the Mill Creek property proceeds (\$176,000) from the June 2005 Reserve of \$251,507 leaves a Reserve of \$75,507. During FY 2004-2005 the sales tax was in effect for only nine months. Figures indicate that the additional sales tax is helping rebuild the General Fund Reserve. Results from the audit for 2005-2006 will show the sales tax effect without any public property sales. Building a savings account depends not only on saving more but also spending less. Rebuilding the General Fund Reserves will still require careful fiscal management to control spending in addition to increasing revenue.

The additional 1% sales tax is scheduled to end October, 2008. Sometime before that date the City Council, and perhaps the voters, will have to decide whether to continue the tax or to end it.

Fiscal Oversight - Protecting Your Money

What policies and procedures has the City Council put in place to ensure funds are protected and accounted for?

Office Procedures

1. Checks are locked safely away when not being used.
2. All bills are taken to the accountant for recording and check writing.
3. All checks require two signatures: the City Clerk and/or one or two Councilmembers authorized to do so.
4. All transfers of funds between accounts are recorded.
5. All payments are kept and recorded separately, e.g. water bill payments, blue bags purchases, cemetery plot sales.

Accountant Procedures

1. The Accountant records deposits and expenses, and writes checks to pay bills but does not sign checks.
2. Reviews accounts with Councilmembers or department heads, e.g. Police Chief, to ensure amounts are credited to or withdrawn from the appropriate budget categories.
3. Produces monthly budget summaries and quarterly financial reports.
4. Prepares and submits required tax reports to the state, including the annual City Financial Transaction Report to the State Treasurer's office.
6. Continues to implement GASB 34 (Governmental Accounting Standards Board) mandates - requirements for new accounting procedures of City assets.

Auditor

Each year the Council hires an outside auditing firm to review the City's financial records and procedures. The auditor begins work a few months after the end of the fiscal year and publishes a report sometime around the end of the calendar year. The report is public information and gives detailed information about each budget category.

Financial Advisor

Last year the Council contracted with a Financial Advisor who has much experience in municipal finances. The Advisor has two main responsibilities: to review the City's investments and advise us on our investment policies; and to study our financial procedures and advise us on ways to improve them.

Citizen Participation

You are one of the most important safeguards in protecting your money. By attending budget planning sessions, by asking the Council questions about expenses and revenues, by examining financial reports - in all these ways you help oversee your city's finances. Financial

reports are public record and are available just for copying costs. We establish a web site (www.trinidad.ca.gov) and these reports will be available online.

One of the most effective ways to ensure your city's financial health is to participate in your government.